HOUSING MARKET OUTLOOK
Charlottetown CA

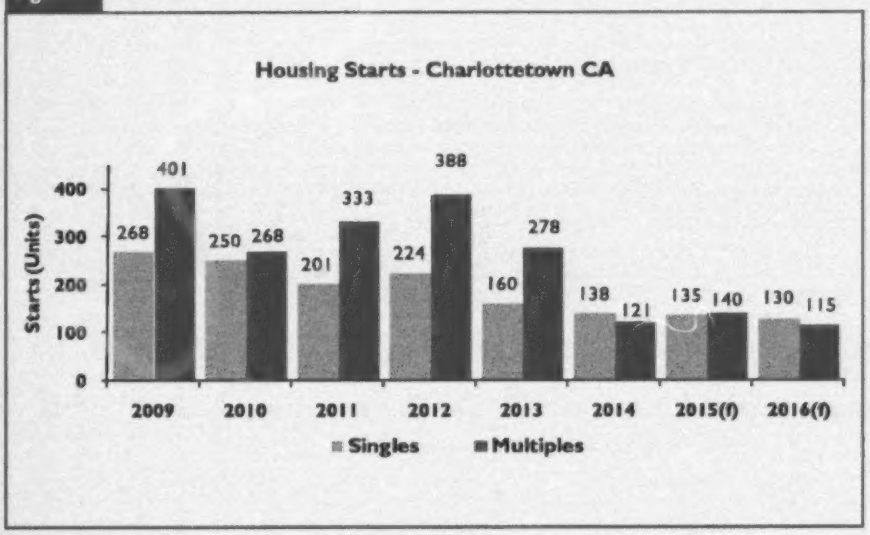
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

Highlights

- Moderate increase in multi-residential starts expected in 2015
- Single-detached starts to remain below the long term average
- Existing home sales expected to record little change this year
- Average prices to stabilize over the forecast period

Figure 1



Source: CMHC

Table of Contents

1 Highlights

2 Multi-Residential Starts to Increase in 2015

2 New Home Construction: Single Starts to Trend Lower

3 Resale Market: Expect Near Term Stability in MLS® sales

3 Housing Demand: Fundamentals to Soften Over the Forecast Period

5 Forecast Risks

6 Forecast Summary

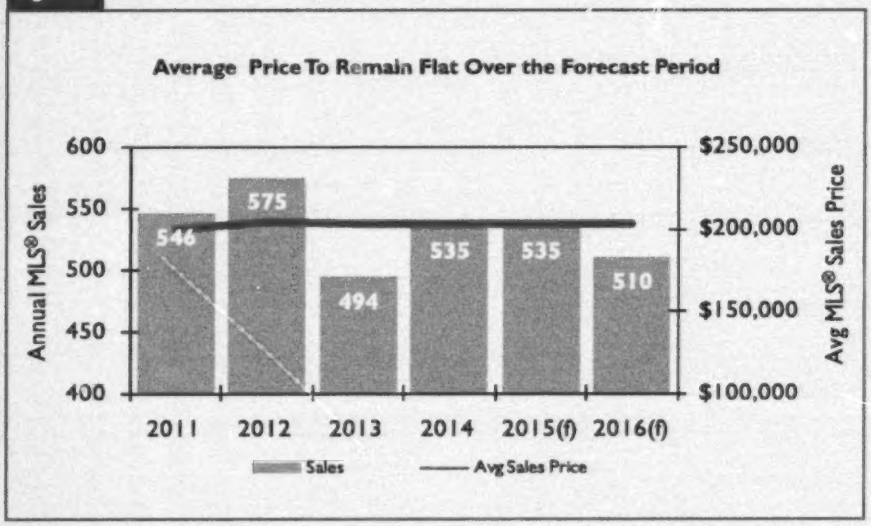
7 Glossary of Terms, Definitions and Methodology

9 CMHC – Home to Canadians

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

Figure 2



Source: CMHC

Multi-Residential Starts to Increase in 2015

In the Charlottetown CA, total housing starts are expected to experience a modest increase in 2015 before declining in 2016. The anticipated rise in activity in 2015 will be limited to the multi-residential market where above average construction activity in recent years, particularly in the 2009 to 2013 period, was largely supported by rental starts averaging 223 units annually. The resulting expansion of the rental universe far outpaced the output from construction activity observed between 1993 and 2008, when average apartment starts in the local rental market were limited to 45 units annually. The sharp increase in rental market construction was attributed to a variety of factors including relatively low vacancy rates, a surge in net migration to the capital region and low borrowing costs.

As annual apartment completions significantly exceeded the long-term historical average, a growing imbalance between supply and demand in the local rental market pushed the vacancy rate from 3.3 per cent in 2011 to nearly eight per cent in the fall of 2013. The substantial increase in supply in rental stock was largely responsible for the vacancy rate increase, giving developers a reason to pull back on new projects in 2014 with rental starts falling 65 per cent.

Recognizing the trend of aging population, many developers in Charlottetown have increasingly focused new developments toward a mature clientele. In particular, retirees and empty nesters have, in increasing numbers, sold their homes in rural areas and relocated to the provincial capital. Many have opted for new rental units due to the convenience of a maintenance free lifestyle. This trend is expected to remain over the forecast period, generating some additional, non-traditional demand for rental units. As such, multi-residential starts are expected to increase to 140 units this year, followed by a subsequent decline to 115 starts in 2016 as recently added supply is absorbed.

Due to the relatively small size of the Charlottetown rental market, annual fluctuations in construction activity are not uncommon as developers align their output to demand. Moving forward, the anticipated pace of new construction in the rental market should provide some stability to the vacancy. In 2015 and 2016, expect the vacancy rate to remain below 2013's peak but remain elevated at six per cent.

The average rent for a two-bedroom unit is expected to increase over the forecast period. A stable, yet elevated vacancy rate combined with new product entering the market will result in rents climbing at a similar pace to inflation. Average rents will reach $845 in 2015 with a further one per cent increase in 2016.

New Home Construction: Single Starts to Trend Lower

In the single-detached segment, last year's total of 138 starts was the lowest on record for the Charlottetown CA in nearly three decades. The gradual downward trend that started after single starts peaked in 2004 is expected to remain over the current forecast period. Going back to 1990, single starts have averaged 235 annually. For both 2015 and 2016, single starts, which are expected to reach 135 and 130 units, respectively, will be significantly lower than the long-term average. Slowing activity in the single-detached market can be attributed to a number of factors. Two of the more prominent factors, however, are a steady rise in out-migration and the evolving needs of an aging population. From a demographic standpoint, the average age in the Greater Charlottetown area continues to rise. The fastest

growing group is the 65 and over segment, which increased 14 per cent between 2006 and 2011. An aging population with evolving needs has and will continue to shift demand away from single-detached homes.

The widening gap between the cost of a new home and the average price of an existing home is another underlying factor explaining the ongoing decline in demand for new, single-detached homes. The absorbed price for a new single-detached home climbed by an average of 6.6 per cent annually between 2011 and 2014 – a much quicker pace than the 3.4 per cent reported in the existing homes market during the same period. As of the end of last year, the average price for a new home in Charlottetown stood at $303,812. In the existing home market, the average MLS® resale price for an existing single-detached home that was less than five years old in 2014, which provides a more relevant comparison with new homes, was approximately $253,500. As a result of the rising costs of new homes and increasing competition from the existing home market, many prospective buyers are choosing either the resale or are shifting to the rental market. This trend, which is expected to continue, will contribute fewer single starts over the forecast period.

Resale Market: Expect Near Term Stability in MLS® sales

Minimal change is expected in the Charlottetown resale market over the forecast period. For 2015, MLS® sales should remain relatively unchanged from last year's total of 535 units, followed by a modest decline to 510 sales in 2016. The anticipated lack of growth in the resale market is largely attributed to lower net migration gains, a softer job market and shifting demand away from single-family housing into multi-residential dwellings. Employment and economic growth are expected to remain modest over the forecast period, which will continue to fuel out-migration and subsequently this will have a negative impact on the demand for existing homes.

Between 2008 and 2012, annual net migration gains in Charlottetown averaged nearly 2,000 people. In subsequent years, the end of the Provincial Nominee Program, combined with the increasing movement of Islanders towards Western Canada, resulted in a significant drop in annual net migration gains. As a result, the positive impact of sustained, above average population growth on the demand for existing homes fell and fewer sales were recorded. Migratory patterns are expected to remain positive yet subdued over the forecast period which will help sustain the current level of inventory available in the local resale market. Anticipated population growth, however, will not be sufficient to significantly increase demand for existing homes.

Relatively weak fundamentals, including slowing sales and above average inventory, will provide prospective buyers with significant choice and keep prices near current levels. In 2015, expect prices to remain at $202,500 before posting a slight increase in 2016 to $203,000.

Housing Demand: Fundamentals to Soften Over the Forecast Period

In recent years, overall economic growth in the province was negatively impacted by limited personal income growth, declining employment levels, rising out-migration and increasingly conservative consumer purchasing patterns. This trend is expected to remain over the forecast period, even if out-migration towards Western Canada slows due to the recent drop in global oil prices.

Overall, many factors have influenced housing demand in Charlottetown over the past decade, particularly the growth in population and employment, as well as low borrowing costs and a shift in consumer choice. Looking back, however, the strong surge in population that started in 2008 was undoubtedly one of the key drivers of surging new home construction and resale activity.

Overall, the population of Charlottetown climbed 8.7 per cent between the last two census periods to nearly 65,000 residents as the Provincial Nominee Program successfully generated strong net migration gains between 2008 and 2012. As the program came to an end, in-migration to the provincial capital slowed considerably. While net migration is expected to continue generating positive results over the forecast period, annual gains will not approach the levels reported over the 2008-2012 period. As a result, the direct impact of migration on housing demand over the forecast period will be substantially diminished.

The job market in Charlottetown reported strong growth in recent years. Between 2010 and 2013, overall employment on the island grew 3.5 per cent per year with full-time growth outpacing increases in part-time employment. In 2014, however, modest gains in full-time employment were not enough to offset a sharp decline in part-time work which resulted in total employment falling 0.7 per cent to about 36,750 jobs. This decline was

largely influenced by a two per cent decline in Charlottetown's service sector, which is the region's largest employment sector.

Economic growth in Prince Edward Island is expected to be relatively mild over the forecast period, with annual respective GDP growth rates of 0.6 and 0.8 per cent in 2015 and 2016. The declining value of the Canadian dollar should benefit the tourism industry, which would have a positive impact on economic growth. In addition, a spring election in the province might spark some additional, short-term economic stimulus. The near term outlook for public sector capital investment will, however, focus on fiscal restraint. This will likely be one of the key themes over the forecast period as provincial governments in the Atlantic region are faced with difficult job markets and increasingly conservative consumers. These conditions will have a negative near-term impact on housing demand in Charlottetown.

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain near historical low levels which will support housing demand.
Employment	Employment growth in Charlottetown was strong in 2013. In 2014, however, total employment started to trend lower. Declining employment levels will negatively impact demand for all types of housing.
Income	Growth in average weekly earnings in Prince Edward Island in 2014 was below the rate of inflation. As a result, workers in the province experienced no real wage growth. This trend will likely continue to have a negative impact on housing demand.
Net Migration	Out-migration throughout Prince Edward Island continued to trend upward in 2014, exerting negative pressure on housing demand.
Natural Population Increase	Overall population growth in Prince Edward Island is minimal. An aging population is expected to impact the tenure of housing demand moving forward.
Resale Market	The existing homes market is expected to remain favourable to buyers over the forecast period as sales further slow and average days on market increase.
Other	Reduced public-sector capital spending combined with muted, large-scale private-sector investment will limit economic growth in 2015 and 2016.

Forecast Risks

This outlook is subject to some risk including:

- Negative inter-provincial migration combined with a weaker outlook for international immigration will limit demand over the forecast period.
- A stronger than expected U.S. economic recovery or stronger growth in emerging countries could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing market.
- Recent increases in the level of apartment starts are expected to impact the vacancy rate further in 2015 and 2016. If the vacancy rate increases faster than expected, construction projects could be delayed.
- Elevated levels of household debt and house prices in some urban centres have made the province's economy more vulnerable to economic shocks. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary Charlottetown CA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	224	160	138	135	-2.2	130	-3.7
Multiples	388	278	121	140	15.7	115	-17.9
Starts - Total	612	438	259	275	6.2	245	-10.9
Average Price ($):							
Single-Detached	272,844	286,344	303,812	288,000	-5.2	288,000	0.0
Median Price ($):							
Single-Detached	250,000	269,450	272,450	272,000	-0.2	272,000	0.0
New Housing Price Index (% chg.)	0.2	0.5	-1.1	0.5	-	0.5	-
Resale Market							
MLS® Sales	546	494	535	535	0.0	510	-4.7
MLS® New Listings	875	924	954	1,033	8.3	1,085	5.0
MLS® Average Price ($)	199,580	204,319	203,305	202,500	-0.4	203,000	0.2
Rental Market							
October Vacancy Rate (%)	5.7	7.9	5.9	6.0	0.1	6.0	0.0
Two-bedroom Average Rent (October) ($)	803	804	836	845	1.1	855	1.2
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	35,450	36,950	36,775	37,700	2.5	37,700	0.0
Employment Growth (%)	1.9	4.2	-0.5	2.5	-	0.0	-
Unemployment Rate (%)	8.1	9.0	8.3	8.5	-	8.5	-
Net Migration (P.E.I.)	509	66	869	250	-71.2	250	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, YouTube and Flickr.

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2015 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

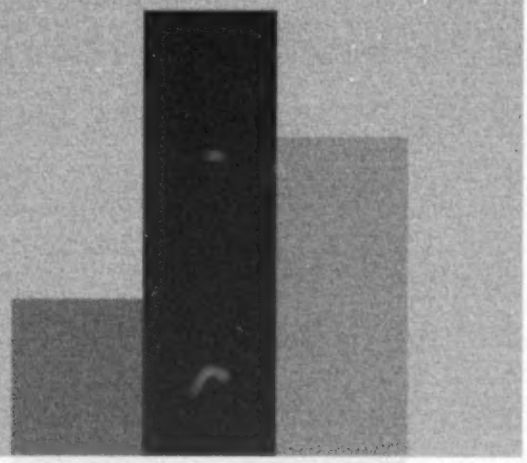
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Condominium Owners Report
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres
- Rental Market Statistics
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities – starts, rents, vacancy rates and much more.

HOUSING MARKET INFORMATION PORTAL

The housing data you want, the way you want it

Information in one central location.

Neighbourhood level data.

Quick and easy access.

cmhc.ca/hmiportal

64263_2015_B01